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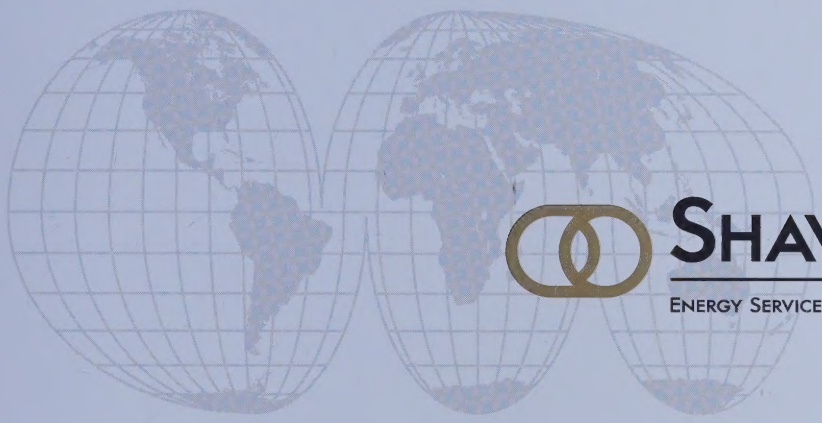


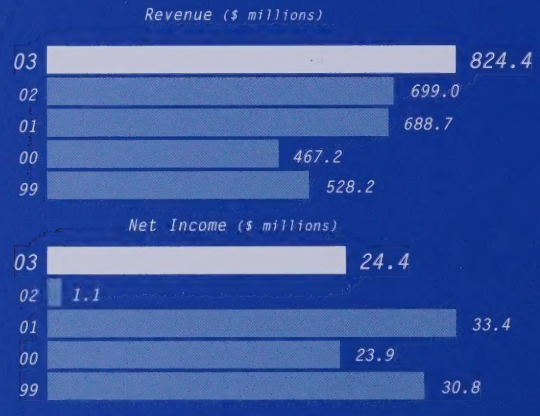
SHAWCOR

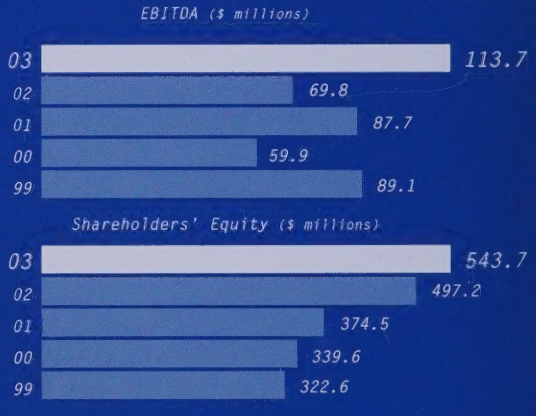
ENERGY SERVICES • GLOBAL SOLUTIONS

Positioned for Growth

2003 Annual Report

ShawCor Ltd. is a global energy services company operating through seven business units which focus on technology-based products and services for pipeline, exploration and production, and petrochemical and industrial markets with manufacturing and service facilities located in over fifteen countries around the world.





Financial Summary

(In thousands of Canadian Dollars except per share amounts)	2003	2002
OPERATING RESULTS		
Revenue	$ 824,397	$ 698,982
EBITDA (Note 1)	$ 113,709	$ 69,806
Income from operations	$ 48,219	$ 22,707
Provision for asset impairment	$ —	$ 17,000
Net income for the year	$ 24,351	$ 1,134
Earnings per share, Class A and Class B – Basic	$ 0.35	$ 0.02
Earnings per share, Class A and Class B – Diluted	$ 0.34	$ 0.02
CASH FLOW		
Cash provided by (used in) operating activities	$ 150,754	$ (2,813)
Additions to capital assets	$ 16,657	$ 31,594
Acquisitions	$ —	$ 221,025
FINANCIAL POSITION		
Working capital	$ 152,420	$ (79,611)
Total assets	$ 825,617	$ 985,900
Shareholders' equity per share (Class A and Class B)	$ 7.25	$ 7.24
Return on equity (ROE) (Note 2)	5.00%	0.28%

Note 1: EBITDA is a non-GAAP measure calculated by adding back to income from continuing operations, taxes, net interest, depreciation and amortization, and provision for asset impairment.

Note 2: Return on equity is a non-GAAP measure calculated by dividing net income by quarterly averaged shareholders' equity.

2003 RESULTS

As 2003 unfolded, it became clear that the recovery in energy industry activity levels would be more gradual than anticipated as oil and gas producers maintained tight controls on exploration and production and pipeline capital expenditures. Notwithstanding, the year finished with renewed signs that markets for ShawCor's products and services were improving, a trend which should provide a solid foundation for long-term sustainable growth in energy service markets through 2004 and beyond.

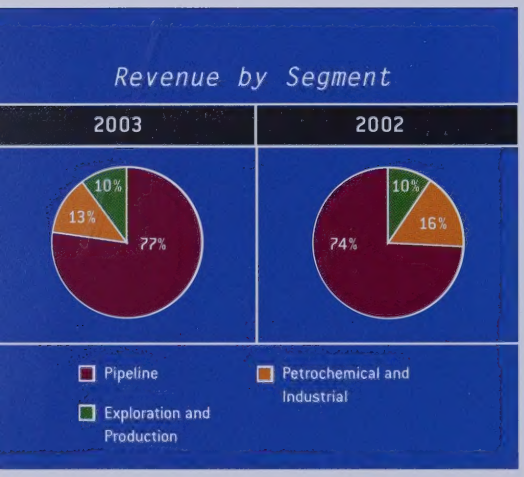
During 2003, ShawCor's management team focused on programs to complete the integration of Bredero Shaw as a wholly-owned business unit and to restructure the company's finances following the completion of the acquisition of the remaining 50% interest in Bredero Shaw at the end of the third quarter of 2002. In June, the company issued US$75 million of eight-year senior notes and finalized a US$165 million three-year unsecured bank credit facility. The debt refinancing was followed in October by the issue of 6.3 million Class A shares from treasury which raised gross proceeds of $90.1 million. By successfully extending the term of a substantial portion of the indebtedness incurred with the Bredero Shaw transaction and increasing the permanent capital base, ShawCor is now well positioned to meet the capital requirements of major pipecoating projects around the world and to complete strategic acquisitions when such opportunities arise.

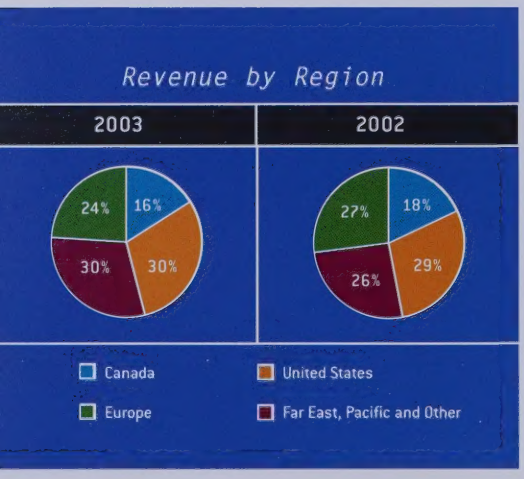
Early in 2003, management initiated a thorough review of the business processes, organizational structures and reporting systems in each of ShawCor's seven operating divisions and within the corporate management group. This review identified a number of opportunities to reduce operating costs and increase profitability across all areas of the company's operations. The steps necessary to achieve the desired results have been incorporated into a comprehensive Profit/Returns Improvement Program, which was initiated in 2003 and continues through 2004 and beyond.

While activity levels in ShawCor's energy service markets began to recover as 2003 progressed, the growth in product and service revenue across the company's seven business units was uneven as several market sectors had just begun to recover by the end of the year. While the North American economy began to exhibit renewed strength during the second half of 2003, growth in Europe was marginal at best and was below anticipated levels in the Far East.

With the exception of some project activity in the Middle East during the first half of the year and the Far East during the second half of the year,

The year finished with renewed signs that markets for ShawCor's products and services were improving, a trend which should provide a **solid foundation for long-term sustainable growth** in energy service markets through 2004 and beyond.





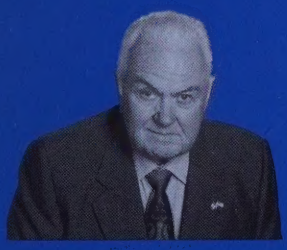
global pipeline construction remained subdued for most of 2003. As a result, it now appears that 2003 was the low point in the cycle prior to the beginning of a new round of increased project activity in most geographic markets. When combined with other major transmission projects scheduled for the 2004-2006 time frame and beyond, the outlook for Bredero Shaw has improved on a year-over-year basis.

Future development of major gas reserves are more likely to be located farther from established markets with the result that increased demand for new pipeline infrastructure will occur primarily in the international arena during the next three to five years. A new round of pipeline construction in the North Sea and eastern Europe and major new projects to bring Middle Eastern gas to southern Europe, India and Pakistan, along with several projects to increase the availability of gas to rapidly growing markets in the Far East, will support increased levels of pipecoating activity in these international markets. The scope of many of these projects is known but the timing will continue to depend on governmental approvals and the ability to attract capital for new pipeline infrastructure investment. These projects will be followed by others that have only reached the preliminary engineering stages and by the possible construction of the Mackenzie Valley and Alaska pipelines later in the decade.

A key element in the future growth potential for ShawCor's pipeline businesses is based upon the company's strong commitment to the development of new products and processes through the company's internal research and development activities and in cooperation with university and industry-led research programs. The current focus of much of this work is on the development of pipecoating and insulation products for Bredero Shaw utilizing leading-edge material and production technologies required as oil and gas exploration moves into ever deeper waters beyond the continental shelf in the Gulf of Mexico and offshore West Africa. Bredero Shaw's operating results during this period of renewed pipeline investment, combined with the acquisition of outright control of this core business unit, will clearly focus ShawCor's future growth in the pipeline sector.

POSITIONED FOR GROWTH

Although energy service activity levels did not recover as rapidly in 2003 as the industry anticipated at the beginning of the year, renewed economic growth will continue to drive increased energy demand. With natural gas expected to supply much of this growth in energy consumption, both as a primary fuel and as a major power source for new electrical



Leslie E. Shaw
Chairman of the Board

Geoffrey F. Hyland
President and Chief
Executive Officer

generation capacity, ShawCor is positioned for revenue growth through its focus on the pipeline industry.

Progress is anticipated during 2004 toward the implementation of new, more efficient information technology systems, the revision of key elements of the division and corporate organizational structures to achieve greater productivity and the introduction of new programs that concentrate on the benefits attainable through a renewed focus on the "Cost of Quality" throughout the company and on achieving increased profitability growth.

The combined impact of renewed revenue growth based upon rising energy investment, lower operating costs through the implementation of the company's Profit/Returns Improvement Program and completion of the initiatives aimed at strengthening the company's balance sheet are expected to position ShawCor to achieve continued growth in profitability and shareholder returns in the years ahead.

The year 2003 was one of change and renewal at ShawCor and it is important to acknowledge that it is through the dedication and hard work contributed by over 4,500 employees worldwide that the results portrayed in this Annual Report have been achieved.

ShawCor would like to recognize and express appreciation for the many years of service provided by W.J. "Bill" Deyell, who served as a Director of ShawCor beginning in 1985 until his retirement from the Board in May 2003. We are also pleased to welcome Murray Mullen, Chairman, President and CEO of Mullen Transportation Inc. who joined the ShawCor Board in August 2003.

Geoffrey F. Hyland
President and Chief Executive Officer

Leslie E. Shaw
Chairman of the Board

Bredero Shaw's HPCC, High Performance Composite Coating, provides effective corrosion protection and cost-effective toughness for harsh applications while reducing the need for select back-fill.

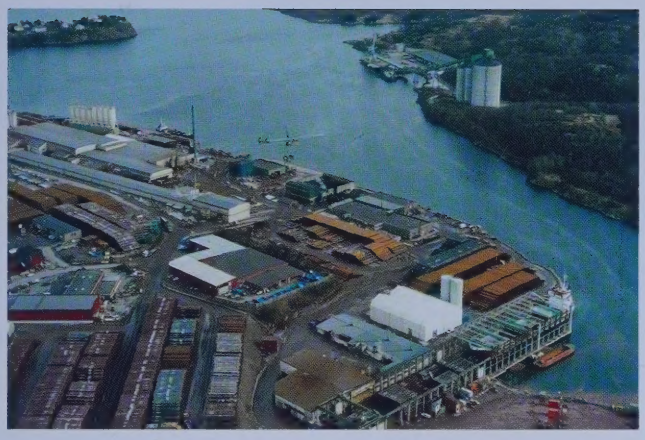
BREDERO SHAW
A SHAWCOR COMPANY

During the year, Bredero Shaw secured several **major pipecoating contracts** with the most significant being the Langeled Transportation System and Ormen Lange Gas Field Pipeline project with a combined value of US$235 million.

Bredero Shaw is the world's leading pipecoating company, employing approximately 3,000 permanent and contract personnel at facilities located in fourteen countries. The division provides a full range of specialized anti-corrosion, insulation and weight coatings along with related pipe-welding services for land and offshore pipelines, including leading-edge deepwater applications.

North American pipecoating activity declined in 2003 for the second straight year. Volumes also decreased in Europe and Africa after a strong first half, impacted by delays in Nigeria. These declines were partially offset by the completion of several projects in the Middle and Far East. During the year, Bredero Shaw secured a number of major pipecoating contracts with the largest, and most significant, being the Langeled Transportation System and Ormen Lange Gas Field Pipeline project with a combined value of US$235 million. The project scope includes the coating for twin pipelines from the Ormen Lange gas field to the Nyhamna Terminal on the northwest coast of Norway and for a single pipeline from the terminal across the North Sea to the east coast of England. When completed, the Langeled pipeline, with a total length of about 1,200 km, will be the longest subsea gas pipeline system in the world. Coating for the project will be carried out at Bredero Shaw's facilities in Farsund, Norway, where mobilization work is currently underway with a planned production start in mid-2004, and in Leith, Scotland. Other key contracts awarded to Bredero Shaw in 2003 included the Trans Thailand Malaysia (TTM) Offshore Pipeline project and the Bayu Darwin Offshore Pipeline project in northern Australia, which have a combined value of over US$60 million.

The acquisition of Bredero Shaw at the end of the third quarter of 2002 allows for synergies, cost savings and productivity improvements through closer cooperation with



Coating work for the Langeled Transportation System and Ormen Lange Gas Field Pipeline project will be carried out at Bredero Shaw's plant in Farsund, Norway.

As a wholly-owned division, Bredero Shaw is now able to take full advantage of ShawCor's business systems, practices and management capabilities while the company's other pipeline businesses, Canusa-CPS and Shaw Pipeline Services, are better able to **meet the needs of key pipeline customers** worldwide.

ShawCor's corporate research group and the other pipeline divisions. An example of this is the increased focus on research and development at Bredero Shaw as the division's Technology and Development Group in Calgary works more closely with the personnel and resources available at ShawCor's Harold Jarvis Technology Centre in Toronto to develop new products to satisfy emerging customer requirements in the pipecoating industry. As a wholly-owned division, Bredero Shaw is now able to take full advantage of ShawCor's business systems, practices and management capabilities while the company's other pipeline businesses, Canusa–CPS and Shaw Pipeline Services, are better able to meet the needs of key pipeline customers worldwide. Through the full integration of Bredero Shaw, ShawCor has realigned and streamlined its resources to be positioned for growth during the anticipated upswing in pipeline activity in the years ahead.

Bredero Shaw has also implemented several key initiatives as part of ShawCor's Profit/Returns Improvement Program. The key objective of these ongoing initiatives is to standardize, upgrade and automate processes across the division to improve the overall quality of operations, thus reducing costs and improving productivity. These programs along with others planned in 2004 and beyond will allow Bredero Shaw to build upon its industry leading performance.

As expected, contract awards for major project work have begun to increase and a high level of quotation activity indicates that this trend will continue in 2004 and 2005, especially in international markets. Bredero Shaw has succeeded in securing a number of the key projects awarded to date and has taken the necessary steps to maintain its leading position as pipecoating markets continue to grow over the upcoming cycle.

Shaw Pipeline Services' ultrasonic transducer array equipment utilized to inspect internal welds during tendon fabrication for ExxonMobil's Kizomba A project at Gulf Marine Fabricators, Aransas Pass, Texas.

SHAW PIPELINE SERVICES

A SHAWCOR COMPANY

Shaw Pipeline Services has firmly established itself as the **technical and market leader** in the pipeline weld inspection industry and will benefit along with Bredero Shaw and Canusa-CPS as international pipeline project activity continues to grow in 2004 and beyond.

Shaw Pipeline Services is the leading provider of a complete range of ultrasonic and radiographic girth weld inspection services and other related non-destructive testing services for land and marine pipelines worldwide.

Shaw Pipeline Services' revenue in 2003 was the highest in the division's history while operating income was well above prior year levels. During the year, the division continued to expand services for the deepwater inspection market, successfully completing several key offshore projects. One example of the division's technological innovation was on the Kizomba A project in Angola, which involved the inspection of internal welds using a specially designed version of the division's ultrasonic transducer array equipment to successfully meet this project's unique weld inspection requirements. This ability to meet specific customer needs through the development of new products and services, such as the division's Auto Detection software developed in 2002 and successfully launched in 2003, has allowed Shaw Pipeline Services to maintain its leadership position in the industry.

During 2003, Shaw Pipeline Services continued to focus on cost reduction and on productivity improvements. The division further simplified its organizational structure after the consolidation of business activity at its Houston facility in 2002, yielding even greater cost savings and productivity improvements. The division also improved its information systems and operational planning tools. Additional improvements are planned for 2004, allowing for more effective cost management and allocation of resources.

Shaw Pipeline Services has firmly established itself as the technical and market leader in the pipeline weld inspection industry and will benefit along with Bredero Shaw and Canusa–CPS as international pipeline project activity continues to grow in 2004 and beyond.

Crew installing Canusa-CPS' GTS-65 heat shrinkable sleeve on polyethylene coated pipe for the Pine Pass pipeline project near Fort St. John, British Columbia.

CANUSA-CPS
A SHAWCOR COMPANY

The division's success in securing **major international projects,** due in part to customer acceptance of its high performance, polypropylene-based joint protection system and global transmission sleeve (GTS) product line, was the major contributor to the increase in sales during the year.

Canusa–CPS is a leading manufacturer of heat shrinkable pipeline joint protection systems, adhesives, sealants and liquids-based coating systems for oil, gas, sewage, water transmission and district heating pipelines globally. With manufacturing and distribution facilities located worldwide, the division provides international customers with local service and support, including training and quality assurance services at the right-of-way.

Canusa–CPS achieved increased revenue and operating income in 2003. The division's success in securing major international projects, due in part to customer acceptance of its high performance, polypropylene-based joint protection system and global transmission sleeve (GTS) product line, was the major contributor to the increase in sales during the year.

New product development to support customer needs continues to be a major focus at Canusa–CPS. The division has introduced several new high performance product lines that provide superior corrosion protection for pipelines operating at extreme temperatures and under the demanding operating conditions found in remote locations worldwide.

With pipeline project activity anticipated to increase in the future, Canusa–CPS is continuing to optimize capacity and improve productivity while controlling costs at its manufacturing facility in Huntsville, Ontario. In coordination with these efforts, the division's dedicated team of sales, marketing and technical personnel maintains a strong commitment to the development of new products and services that will meet the needs of customers in all international markets as well as securing the necessary approvals to participate on these major projects. Canusa–CPS is well positioned to capitalize on the opportunities that these growth markets will present in 2004 and beyond.

OMSCO drill pipe provides strength and long life under the demanding drilling conditions found on rigs around the world such as the example seen here in Tarapoa, Ecuador.

OMSCO
A ShawCor Company

OMSCO achieved a 65% increase in revenue in 2003 in part by continuing to focus on international and offshore drilling customers and by strengthening and expanding the capabilities of its sales and marketing team to serve these growing markets.

OMSCO is a leading manufacturer of high performance drill string components including drill pipe, heavyweight drill pipe, drill collars, kellys and other drill string accessories.

North American drilling activity began to recover in 2003 as producers attempted to meet continuing high gas demand and to restore gas storage levels after the sharp decline during the 2002-2003 winter season. However, this increase in drilling did not immediately translate into orders for new drill pipe, as there is always a lag while drilling contractors utilize the inventories left over following the previous activity cycle. OMSCO achieved a 65% revenue increase in U.S. Dollars in 2003, as the division was able to offset the impact of this low North American demand by continuing to focus on international and offshore markets. The division strengthened and expanded the capabilities of its sales and marketing team with a specific focus on these growing markets, increasing its international market share, especially in important emerging markets such as Latin America and the former Soviet Union. During the year, OMSCO sold the assets of its previously closed European drill pipe manufacturing facility as increased capacity and higher productivity now allow the division to serve international markets from its Houston manufacturing facility at a lower cost.

In support of these international marketing efforts, the division continued with its product development initiatives in 2003. An example of this effort was the introduction of OMSCO's new, high strength SS105 drill pipe developed specifically for sour gas service applications which are affected by elevated levels of H_2S, a condition prevalent in parts of the Western Canadian Sedimentary Basin.

With North American drilling activity expected to continue to improve throughout 2004, inventories should be depleted sufficiently to strengthen the demand for drill pipe and other drill string components in this core market and should support continued sales growth at OMSCO through 2004 and 2005.

Guardian's web-based pipe tracking and inventory management systems allow customers to control their tubular asset base more effectively to improve service levels and financial returns.

GUARDIAN
A SHAWCOR COMPANY

Guardian has
added facilities and expanded capacity
in Grande Prairie, Alberta and Ft. St. John and Ft. Nelson, British Columbia in order to meet customer needs in these frontier areas.

Guardian provides a complete range of tubular management services including mobile and in-plant inspection, machine shop services and computerized, web-based inventory management systems for drill pipe, production tubing and casing. Guardian provides services to oil and gas producers, drilling contractors and tubular rental companies from facilities located in Western Canada and Mexico.

Guardian's new web-based inventory tubular management system, which allows online access to inventory data including all shipping and receiving manifest information and the complete history of all pipe in inventory, has been very well received by customers and will help the division to further differentiate itself from its competitors.

Drilling activity in Western Canada continued to move northwest in Alberta and into northeastern British Columbia and the Northwest Territories in search of new gas discoveries. Based on this trend, Guardian has added facilities and expanded capacity in Grande Prairie, Alberta and Ft. St. John and Ft. Nelson, British Columbia in order to meet customer needs in these frontier areas.

Core inspection sales were strong in 2003 and are expected to remain strong in the next year. With the anticipated recovery in drill pipe demand as inventory levels are reduced, Guardian's sales of OMSCO drill pipe should increase allowing overall volumes to grow significantly in 2004.

ShawFlex cable provides the toughness and flexibility required for instrumentation applications at electricity substations such as this facility located in Kitchener, Ontario.

SHAWFLEX
A SHAWCOR COMPANY

Recent equipment additions at ShawFlex's manufacturing facility in Toronto have **extended the division's product range** to include larger cable sizes and increased overall capacity.

ShawFlex is a world-class manufacturer of custom designed control and instrumentation cable including thermocouple, armoured, tray, traffic signal, robotic, marine/shipboard, nuclear and utility cables.

With the North American wire and cable industry in a state of recession, ShawFlex continued to generate positive earnings in 2003, which was a testament to the division's overall efficiency and low cost base. The division also displayed creativity and innovation in finding alternate sources of revenue during an otherwise difficult year, such as the provision of additional testing services for its proprietary SLAR umbilical cables. These cables provide power and control for maintenance robots used within Candu nuclear reactors. This new service helped to offset the decrease in demand for ShawFlex's mainstream wire and cable product lines.

Several major oil sands projects that are expected to proceed in the coming years to satisfy growing North American energy demand will support increased requirements for the division's wire and cable products. ShawFlex is positioned to be ready for this growth in demand, not only for its current products but also for new wire and cable products and the larger gauge sizes that these projects will likely require. An example of this initiative is the recent equipment additions at its manufacturing facility in Toronto that extended the division's product range to include larger cable sizes and increased overall capacity.

In addition to the potential from heavy oil and other resource projects, the expected growth of the North American economy in 2004 should allow ShawFlex's volumes to recover. The division is well positioned to take full advantage of the market recovery and increased overall demand for its specialty products.

DSG-Canusa's focus on generating revenue from new products continues with the introduction of Medium Voltage Splice and Termination products for the Electrical Utility market.

DSG-CANUSA
A SHAWCOR COMPANY

Using ShawCor's adhesive, cross-linking and polymer technologies, DSG-Canusa has **developed and introduced several new products** to serve the important automotive and electrical/utility markets.

With manufacturing facilities located in North America and Europe, DSG–Canusa is a leading global manufacturer of heat shrinkable tubing, sleeves, moulded products and kits. DSG–Canusa's products provide insulation, environmental sealing and wear resistance for wire and cable connections in electrical, electronic, automotive and communications applications.

In 2003, DSG–Canusa continued its focus in the automotive and electrical markets, while the communications market continued to weaken due to curtailed capital spending, primarily within the North American cable television industry. The division improved its geographical sales coverage and distribution channels and secured additional product approvals with leading automotive manufacturers, resulting in continued share gains for the second straight year.

Using ShawCor's adhesive, cross-linking and polymer technologies, DSG–Canusa has developed and introduced several new products to serve the important automotive and electrical/utility markets. After obtaining essential utility approvals in 2002, the division successfully launched new medium voltage splice and termination kits in 2003. These new kits, along with the division's other new product development programs, will contribute to DSG–Canusa's sustained growth in the future.

As part of an ongoing commitment to increase overall quality and efficiency, DSG–Canusa streamlined its operations and strengthened its sales force in 2003. This commitment to quality combined with a focus on new products and the expected rebound in overall economic activity in 2004 should provide a strong platform for growth at DSG–Canusa.

ShawCor Ltd. is a global energy services company specializing in products and services for pipeline, exploration and production, and petrochemical and industrial markets. The Company operates through seven divisions, with manufacturing and services facilities located around the world. The Company classifies its revenue and income from operations into three market segments.

The pipeline segment, which is the largest part of the Company's operations, includes Bredero Shaw, Canusa–CPS and Shaw Pipeline Services. Bredero Shaw provides pipeline corrosion, insulation and weight coating products and related services for land and marine pipelines. Shaw Pipeline Services provides ultrasonic and radiographic pipeline girth weld inspection services for land and marine pipelines. Canusa–CPS produces heat shrinkable sleeves, adhesives, sealants and liquid coatings for onshore and offshore pipelines and specialty district heating and cooling system corrosion protection and sealing applications.

The exploration and production segment includes OMSCO and Guardian. OMSCO manufactures drill pipe and other drill string components while Guardian provides drill string inspection, refurbishment and tubular management services and acts as a distributor for OMSCO products in Canada and Mexico.

The petrochemical and industrial segment includes DSG–Canusa and ShawFlex. DSG–Canusa produces heat shrinkable tubing, sleeves, moulded products and kits. ShawFlex produces specialty instrumentation and control wire and cable.

ShawCor is a growth-oriented company. The Company's strategy is to grow its existing businesses through geographic expansion and focused new product development, while at the same time seeking new investment and acquisitions in the global energy services industry.

Several factors drive demand for the Company's products and services including the level of energy prices, the general level of economic activity, particularly in North America and Europe, and global demand for natural gas and oil.

Effective October 1, 2002, ShawCor completed the acquisition of the remaining 50% of the Bredero Shaw joint venture that it did not already own. Accordingly, ShawCor's consolidated revenue, earnings, cash flows, assets and liabilities after this date include 100% of Bredero Shaw, whereas prior to this date Bredero Shaw was included in ShawCor's consolidated financial statements in proportion to ShawCor's 50% ownership.

REVENUE

Consolidated revenue in 2003 was $824.4 million compared to $699.0 million in 2002. For comparison, if 2002 were restated to include 100% of Bredero Shaw for the entire year, consolidated revenue for 2002 would have been $953.2 million. Over 80% of the Company's revenue is transacted in currencies other than Canadian Dollars, with a majority transacted in U.S. Dollars. The U.S. Dollar was, on average, approximately 11% lower in terms of the Canadian Dollar in 2003 than in 2002. This weakness in the U.S. Dollar reduced the Company's reported consolidated revenue by approximately 8% and, combined with relatively low levels of project activity internationally, reflected a cyclical low for the Company's products.

Revenue in the pipeline segment was $636.8 million in 2003 compared to $519.7 million in 2002 ($773.9 million on a 100% pro forma basis). Bredero Shaw revenue decreased 22% from prior year levels with the impact of a weaker U.S. Dollar vis-à-vis the Canadian Dollar accounting for 7% of the decrease. Lower project volumes at the division's Leith, Scotland and Mobile, Alabama facilities, partially offset by increased project revenue at the division's Far East facilities, accounted for the balance of the decline. Major project activity declined with the completion of the Nakika and Aspen contracts at the end of 2002. While work on the Mardi Gras project, begun in 2002, continued, other anticipated projects in Africa and the Gulf of Mexico were postponed. Similarly, the division's Leith, Scotland plant was temporarily laid-up in the second

half of 2003 after completing the BP Clair and Kvitebjorn projects. The Baku-Tbilisi-Ceyhan project was completed at the Malaysian facility during 2003 while work on the Trans Thailand Malaysia (TTM) and Bayu Darwin projects, together totaling more than US$60 million, commenced at the Malaysian plant in the latter part of the year and will continue into 2004.

Shaw Pipeline Services revenue in 2003 increased 9% over 2002 levels, driven by steady activity in offshore ultrasonic inspection markets. Canusa–CPS revenue reached record levels in 2003 and increased 33% over the prior year through successful pursuit of large international projects supported by completion of a capacity expansion at the division's Huntsville, Ontario manufacturing facility.

Revenue in the exploration and production segment was $82.9 million in 2003 compared to $66.2 million in 2002. Revenue at OMSCO increased 48% over the prior year as the impact of increased North American drilling activity resulted in higher business activity despite the 11% decline in the average value of the U.S. Dollar versus the Canadian Dollar.

U.S. and Canadian rig counts at the end of 2003 were approximately 30% and 20% higher, respectively, than at the end of the prior year. Total revenue at Guardian was essentially the same in 2003 as in the prior year, however, while revenue from the inspection business increased 25% during the year, reflecting the significantly higher Canadian rig count, this improved inspection activity was offset by lower sales of OMSCO drill string components into the Canadian marketplace. Previous year sales of OMSCO product were somewhat skewed by a large order that was taken prior to the collapse in drilling activity in late 2001 but shipped in the first quarter of 2002.

Revenue in the petrochemical and industrial segment was $106.5 million in 2003, 7% lower than 2002 revenue of $114.5 million. Revenue at DSG–Canusa increased 4% over the prior year through successful market share gains, despite stagnant economic conditions in some of its markets, particularly in Europe. The division's strategy of leveraging its European automotive market presence to gain entry into North American markets began to bear fruit with product approvals received from one of the Big Three auto makers in the latter part of the year. This will open the door for additional automotive orders in 2004. Revenue at ShawFlex decreased 30% from prior year levels, reflecting the decline in North American wire and cable markets, which began in 2002 and continued throughout the year. ShawFlex's niche marketing strategy and cost competitiveness enabled the division to stay profitable in 2003 and, together with increased product offerings, position it well for the next market upswing.

On a comparable basis, with 2002 revenue restated to include 100% of Bredero Shaw for the full year, geographic revenue was lower in all regions except the Far East in 2003 due to lower pipeline project activity and the impact of the weaker U.S. Dollar on the translation of U.S. Dollar transacted revenue into Canadian Dollars.

INCOME FROM OPERATIONS

While consolidated revenue increased by 18% over last year, consolidated income from operations of $48.2 million increased 112% over 2002 income of $22.7 million. The weakness in the U.S. Dollar throughout the year had a smaller operating impact on income from operations in 2003 than on revenue, due to the effect of translating both U.S. revenue and U.S. costs into Canadian Dollars and the impact of foreign exchange gains resulting from translation of certain of the Company's U.S. Dollar denominated debt. Overall, the lower U.S. Dollar resulted in income from operations for the year being 7% lower than it would have been had the U.S. Dollar stayed at 2002 levels.

Income from operations for the pipeline segment was $37.4 million in 2003 compared to $31.6 million in 2002. Bredero Shaw reported significantly better results at its Far Eastern operations due to strong project activity, as well as at its deep-water facility in Mobile, Alabama as a result of ongoing cost reduction initiatives

and settlement of contract claims on coating and fabrication projects completed in 2002. Operating profit in the Americas region declined in 2003 due to lower project activity in the United States, reduced transmission pipecoating volumes in Canada and costs associated with the shutdown of the Welland, Ontario pipecoating operation following the closure of the adjacent pipe mill. Reduced activity in Europe and Africa, in addition to unrest in Nigeria, also contributed to this decrease.

Profitability at Shaw Pipeline Services improved in 2003 as a result of divisional restructuring and cost reduction programs which were executed in the latter half of 2002. Income from operations at Canusa–CPS increased over the prior year as a result of growth in international project revenue, however, the impact of the weaker U.S. Dollar had an adverse impact on the margins on those projects.

Income from operations for the exploration and production segment was $7.5 million in 2003 including a $5.3 million gain on the sale of assets of the Scotland facility, compared to a loss from operations of $10.8 million in the previous year. Operating earnings at OMSCO improved, underpinned by stronger sales volumes together with the impact of cost reductions resulting from the closure of its Cumbernauld, Scotland facility in 2002. Earnings also improved at Guardian as a result of a change in sales mix in favour of more profitable inspection business.

Income from operations for the petrochemical and industrial segment was $5.7 million in 2003 compared to $12.0 million in the prior year. Income from operations at DSG–Canusa declined from the prior year as margins were negatively impacted by the weakness in the U.S. Dollar and charges relating to a restructuring of sales and marketing activities at the division's European operations. This restructuring will focus the division's resources on growth in its key markets while reducing costs. Operating earnings at ShawFlex were adversely affected by the sharp reduction in division revenue stemming from extremely poor market conditions, however, profitability was preserved through successful profit maximization and cost reduction initiatives.

Segmented financial and corporate costs include corporate expenses not charged to the operating divisions and other non-operating items. Corporate costs in 2003 were slightly higher than the prior year, a result of the consolidation into the corporate office of certain treasury, tax and accounting functions previously undertaken by Bredero Shaw. Net foreign exchange gains on the translation of U.S. Dollar debt to June 30 and gains on the sale of common shares of Compagnie Générale de Géophysique ("CGG") are also included in 2003. The CGG shares were acquired in September 2000 as consideration for the operating assets of Mark Products. Corporate expenses also included costs associated with claims by adjoining landowners at Bredero Shaw's Mobile, Alabama facility.

Depreciation and amortization expense in 2003 was $62.4 million compared to $43.9 million in 2002 with the increase attributable to the additional ownership of Bredero Shaw in 2003. Research and development costs increased $2.3 million over the prior year to $7.2 million for the same reason. ShawCor's share of earnings from a Bredero Shaw associated company increased to $4.4 million from $3.8 million in the prior year. Interest expense on bank indebtedness, net of interest income on short-term deposits, was $3.4 million in 2003 compared to $4.7 million, while interest expense on long-term debt was $4.0 million compared to $509 thousand in the prior year. The interest expense figures reflect the shift from short-term to long-term borrowings, which was completed by the Company during the year, as well as the reduction of short-term debt from the additional equity capital raised in the fourth quarter and the working capital reduction program begun in 2003.

Income taxes in 2003 of $19.7 million represented 43.4% of income before income taxes and minority interest, compared to 59.6% in 2002. The decision not to tax effect certain one-time costs and provisions associated with the Mobile facility increased the effective tax rate by 6 percentage points in 2003. (See note 15 to the consolidated financial statements.) Minority interest in the earnings of subsidiary companies was $1.3 million in 2003 compared to $609 thousand in 2002.

Commencing January 1, 2004, to comply with new CICA requirements, costs associated with stock-based compensation will be expensed. (See note 10 to the consolidated financial statements.)

CASH FLOWS

Cash flow generated from operations in 2003 totaled $150.8 million including $72.7 million generated through the reduction of working capital balances, reflecting the impact of a focused working capital reduction program that was implemented at the beginning of the year. In 2002, cash used in operations was $2.8 million with $30.8 million invested in working capital during the year.

Net cash used in investing activities in 2003 was virtually nil as capital expenditures of $16.7 million were offset by proceeds on the disposal of capital assets of $7.5 million, primarily stemming from the sale of equipment previously used at OMSCO's Cumbernauld, Scotland facility, and by proceeds on the sale of shares of CGG of $9.1 million. Cash used in investing activities in 2002 totaled $91.5 million, comprised of capital expenditures of $31.6 million and the acquisition of the additional investment in Bredero Shaw, partially offset by proceeds on the disposal of capital assets of $9.3 million.

Cash used in financing activities totaled $96.4 million in 2003 as cash generated by operations and by the issuance of shares was used to reduce bank indebtedness. Cash balances at the end of 2003 totaled $80.3 million, an increase of $54.3 million over the prior year end. In 2002, financing activities generated $64.7 million as bank indebtedness was used to finance a portion of the additional investment in Bredero Shaw and provide working capital increases.

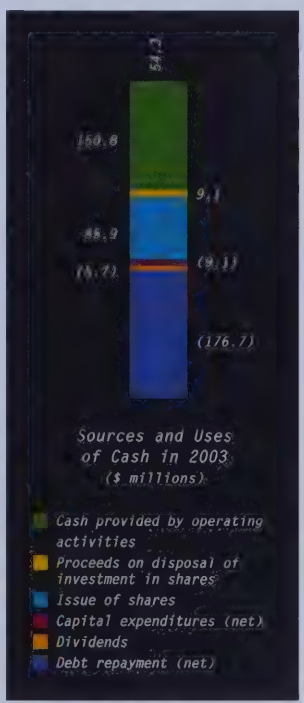
DIVIDENDS

Dividends per share paid in 2003 and 2002 were $0.0808 for Class A Subordinated Voting Shares and $0.0734 for Class B Multiple Voting Shares. The dividend applicable to Class A shares includes a non-cumulative premium of 10% above that applicable to Class B shares. The Board of Directors determines dividend payments based on consideration of net earnings over a period of years and the Company's overall financial standing.

LIQUIDITY AND CAPITALIZATION

At December 31, 2003, the Company recorded a working capital ratio of 2.00 to 1 compared to 0.82 to 1 at December 31, 2002. Operating working capital (excluding cash, bank indebtedness and other current debt) of $72.2 million decreased $99.6 million from prior year-end levels, reflecting the Company's increased emphasis on working capital management together with the impact of the weaker U.S. Dollar on U.S. Dollar denominated working capital balances. At December 31, 2003, cash and cash equivalents totaled $80.3 million (2002 – $25.9 million) while bank indebtedness was nil (2002 – $231.3 million), due to cash generated through operations, the restructuring of the Company's debt from short-term to long-term debt and cash raised through the issuance of share capital.

Capital assets, net of accumulated depreciation, decreased $89.0 million during the year to $305.8 million at December 31, 2003 as depreciation of $62.4 million (2002 – $43.9 million) was partially offset by capital expenditures of $16.7 million (2002 – $31.6 million). The impact of translating the capital assets of self-sustaining foreign subsidiaries, most notably Bredero Shaw's foreign operations, at the lower U.S. Dollar exchange rate reduced the carrying value of capital assets by $39.7 million. The U.S. Dollar exchange rate vis-à-vis the Canadian Dollar was approximately 18% lower at December 31, 2003 than at the end of the



previous year. Goodwill at December 31, 2003 of $186.0 million decreased $26.1 million during the year, again due to the weaker U.S. Dollar. The majority of the Company's goodwill is related to Bredero Shaw and is denominated in U.S. Dollars.

The investment in an associated company decreased $2.7 million during the year to $4.0 million, resulting from the translation impact of the lower U.S. Dollar exchange rate and dividends received in the year in excess of the current year earnings of the associated company. The $16.0 million increase in other assets during the year included deferred financing costs of $3.3 million and an increase in deferred project costs of $9.5 million, primarily related to mobilization of the Farsund, Norway plant for the Langeled/Ormen Lange project. These project costs will be amortized over the life of the project to which they relate, on the basis of revenue. ShawCor's investment in CGG decreased by $5.1 million due to the sale of shares during the year. Future income taxes of $8.3 million represent tax losses which carry forward and may be used to reduce income taxes in future years, however, not until after 2004. The deferred financing costs relate to expenses incurred in restructuring the Company's debt and will be amortized over the term of the underlying agreements.

As 2003 began, virtually all of the Company's debt was short-term, uncommitted bank debt. Strong cash flow generation from operations, a successful restructuring of the debt and a treasury share issue resulted in a much improved balance sheet at the end of the year.

On June 30, 2003, the Company finalized the sale, through a private placement to institutional investors, of US$75 million of Senior Notes. The Senior Notes bear interest at 5.11% per annum and are repayable in equal installments on June 30, 2009, 2010 and 2011. Also on June 30, 2003, the Company announced a new US$165 million Unsecured Bank Credit Facility with a consortium of six North American banks. The net proceeds from the Senior Notes and the Bank Credit Facility were used to repay short-term bank indebtedness as well as to repay the US$25 million Promissory Note issued as part of the acquisition of the additional investment in Bredero Shaw on October 1, 2002. The Company designated US$25 million of the Bank Credit Facility and the full amount of the Senior Notes as a hedge of a portion of its net investment in Bredero Shaw's U.S. Dollar based operations. Foreign exchange gains and losses stemming from the translation of this debt are included in the cumulative translation account contained in the shareholders' equity section of the balance sheet and are not recognized in the income statement. Such gains or losses will partially offset opposing gains or losses on the translation of Bredero Shaw's U.S. Dollar based net assets. The total amount of available capacity, including borrowings, letters of credit and project guarantees, under the Company's various bank financing arrangements is US$215.0 million of which US$165.5 million was unused at December 31, 2003.

Shareholder equity increased $46.5 million during the year to $543.7 million at December 31, 2003. Net proceeds on the completion on October 10, 2003 of an offering of 6.3 million Class A Subordinate Voting Shares at $14.30 per share increased capital stock by $86.0 million, net of expenses. Retained earnings increased $18.7 million to $396.0 million as net income for the year of $24.4 million (2002 – $1.1 million) was partially offset by dividends paid of $5.7 million (2002 – $5.1 million). The cumulative translation account decreased $58.6 million during 2003 to a negative balance of $61.9 million at December 31, 2003. This reflected the impact of a strengthened Canadian Dollar at December 31, 2003 compared to the U.S. Dollar, U.K. Pound and the Euro at the same date last year, on the translation of the net assets of the Company's self-sustaining foreign operations. Partially offsetting this movement were the gains on the translation of that portion of the U.S. Dollar denominated debt that has been designated as a hedge of the Company's investment in Bredero Shaw's U.S. Dollar based operations.

RISKS AND UNCERTAINTIES

Operating in an international environment, servicing predominantly the oil and gas industry, ShawCor faces a number of business risks and uncertainties that could materially adversely affect the Company's projections, business, results of operations and financial condition.

Markets

The Company's business is materially dependent on the level of North American and international drilling and pipeline construction activities which in turn depend on the growth in demand for oil and natural gas and the availability of new supplies to meet this increased demand. Reductions in activity levels in either of these industries would reduce demand for the Company's products and services.

Availability of Raw Materials

The Company purchases a broad range of materials and components throughout the world in connection with its manufacturing activities. Major items include polyolefin and other polymeric resins, iron ore, cement, adhesives, sealants, copper and other non-ferrous wire, steel bar and tubular stock. The ability of suppliers to meet performance and quality specifications and delivery schedules is important to the maintenance of customer satisfaction but the Company is not dependent on any single source of supply. While the materials required for its manufacturing operations have generally been readily available, cyclical swings in supply and demand can produce short-term shortages and/or price spikes. Recent tightening in supplies of certain materials is causing higher prices for these commodities.

Economic Activity

Demand for oil and natural gas, and thus demand for the Company's products and services, is influenced by numerous factors, including the North American and worldwide economies as well as the activities of the Organization of Petroleum Exporting Countries ("OPEC"). Economic declines impact demand for natural gas and result in a softening in gas prices and projected natural gas drilling activity. In addition, if actions by OPEC and other oil producers to increase production of oil adversely affect world oil prices, additional declines in rig counts could result.

Political Risk

The Company's operations in certain international locations, including West Africa, Indonesia, Malaysia and the Middle East, are subject to various political and economic conditions existing in those countries that could disrupt operations. These risks include currency fluctuations and devaluations, currency restrictions and limitations on repatriation of profits and political instability.

Changes in Canadian, U.S., European or other country trade rules and/or regulations could adversely affect the Company's business. The Company's foreign operations may suffer disruptions and may incur losses that will not be covered by insurance. Such disruptions could include the Company's inability to timely and cost effectively ship products, its inability to situate subcontractors and employees in various countries or regions and evacuations, or similar disruptions.

Liability Claims

From time to time, the Company is a party to litigation and legal proceedings that it considers to be a part of the ordinary course of business. Although none of the litigation or legal proceedings in which the Company is currently involved could reasonably be expected to have a material adverse effect on the Company's business, results of operations, or financial condition, the Company could, however, become involved in material legal proceedings in the future.

Environmental Risk

The Company's operations are regulated under a number of federal, provincial, state, local and foreign environmental laws and regulations, which govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of hazardous materials. Compliance with these environmental laws is a major consideration in the manufacturing of the Company's products as the Company uses and generates hazardous substances and wastes in its manufacturing operations. The Company may be subject to material financial liability for any investigation and clean-up of such hazardous materials. In addition, many of the Company's current and former properties are or

have been used for industrial purposes. Some of Bredero Shaw's subsidiaries' pipecoating assets were purchased from parties which utilized asbestos encapsulated felt or unencapsulated asbestos as part of their pipecoating processes. Accordingly, the Company also may be subject to financial liabilities relating to the investigation and remediation of hazardous materials resulting from the action of previous owners or operators of those sites. The Company is also subject to various Canadian and U.S. federal, provincial, state, local and foreign laws and regulations relating to safety and health conditions in its facilities. Those laws and regulations may also subject the Company to material financial penalties or liabilities for any non-compliance, as well as potential business disruption if any of its facilities or a portion of any facility are required to be temporarily closed as a result of any violation of those laws and regulations.

OUTLOOK

Demand for the Company's products and services are influenced by both energy demand and energy supply. Demand for oil and gas is primarily driven by global economic activity and economic growth is expected to increase in the medium term. The economy in the United States is recovering and Western European economies are expected to strengthen somewhat after several years of stagnation, albeit at a slower rate than that in North America. Activity in India, China and other Asian economies is expected to accelerate.

Oil and gas supply is decreasing due to rising decline rates in most major producing basins together with OPEC production cuts, in the case of oil. These indicators bode well for the Company as the demand and supply situation is expected to drive drilling activity as new production is brought on-line and new pipeline line projects will be required to transport this increased production to market.

The equity offering and restructuring of debt from short to long-term, which was completed during the year, has improved the Company's financial strength. This favourably positions the Company to bid on large pipecoating projects, pursue acquisition opportunities as they arise and otherwise finance the growth of the Company.

On December 16, 2003, the Company announced the signing of contracts for coating of the Langeled Transportation System and the Ormen Lange Field Project. These contracts have a total value of approximately US$235 million and pipecoating is expected to commence in mid-2004. The Company's plant in Farsund, Norway is currently being reactivated for this project. These contracts, together with other projects in Asia and West Africa, have resulted in the Company entering 2004 with a stronger backlog position.

Business activity is expected to improve steadily throughout the year as large pipeline projects get underway, as increasing economic activity translates into improved business conditions in the petrochemical and industrial segment, and as the exploration and production segment benefits from increased drilling activity.

This document contains forward-looking statements, which are subject to certain risks and uncertainties that could cause actual results to differ materially from those reflected in such statements.

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of ShawCor Ltd. included in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has selected those it deems to be most appropriate in the circumstances. The financial statements include estimates based on the experience and judgement of management in order to ensure that the financial statements are presented fairly, in all material respects. Financial information presented elsewhere in the Annual Report is consistent with that in the financial statements.

The management of the Company and its subsidiaries developed and continues to maintain systems of internal accounting controls and management practices designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibilities for ensuring that management fulfils its responsibilities for financial reporting and internal control with the assistance of its Audit Committee.

The Audit Committee is appointed by the Board and all of its members are Directors who are not officers or employees of ShawCor Ltd. or any of its subsidiaries. The Committee meets periodically to review quarterly financial reports and to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee reviews the Company's annual consolidated financial statements and recommends their approval to the Board of Directors.

These financial statements have been audited by Ernst & Young LLP, the external auditor, on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

February 28, 2004

Geoffrey Hyland

Geoffrey F. Hyland
President and Chief Executive Officer

A R Thomas

Alan R. Thomas
Vice-President, Finance and
Chief Financial Officer

Auditor's Report

TO THE SHAREHOLDERS OF SHAWCOR LTD.

We have audited the consolidated balance sheets of ShawCor Ltd. as at December 31, 2003 and 2002 and the consolidated statements of income, retained earnings and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and 2002 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

Toronto, Canada
February 13, 2004

December 31 (In thousands of Canadian Dollars)	2003	2002
ASSETS		
Current assets		
Cash and cash equivalents	$ 80,260	$ 25,945
Accounts receivable	151,735	223,101
Inventories (note 3)	63,912	90,345
Prepaid expenses	8,356	19,394
Future income taxes (note 15)	348	4,280
	304,611	363,065
Capital assets, net of accumulated depreciation (note 4)	305,753	394,780
Goodwill	185,965	212,094
Investment in associated company	4,017	6,709
Other assets (note 5)	25,271	9,252
	$ 825,617	$ 985,900
LIABILITIES		
Current liabilities		
Bank indebtedness (note 7)	$ —	$ 231,298
Accounts payable and accrued liabilities	134,885	160,725
Taxes payable	17,306	4,625
Note payable (note 2)	—	39,698
Current portion of long-term debt (note 7)	—	6,330
	152,191	442,676
Long-term debt (note 7)	97,095	6,739
Future income taxes (note 15)	28,818	35,986
Non-controlling interest in subsidiaries	3,843	3,293
	281,947	488,694
SHAREHOLDERS' EQUITY		
Capital stock (notes 2 and 8)	206,511	120,501
Contributed surplus (note 10)	3,027	2,667
Retained earnings	396,037	377,387
Cumulative translation account (note 12)	(61,905)	(3,349)
	543,670	497,206
	$ 825,617	$ 985,900

See accompanying notes.

On behalf of the Board

Geoffrey F. Hyland
Director

Leslie E. Shaw
Director

Consolidated Statements of Income

Years ended December 31 (In thousands of Canadian Dollars, except per share information)	2003	2002
Revenue	$ 824,397	$ 698,982
Operating expenses	706,571	627,407
Depreciation and amortization	62,359	43,910
Research and development	7,248	4,958
	776,178	676,275
Income from operations	48,219	22,707
Provision for asset impairment (note 5)	—	(17,000)
Other expense (note 14)	(2,939)	(1,391)
Income before income taxes and non-controlling interest	45,280	4,316
Income taxes (note 15)	19,666	2,573
Income before non-controlling interest	25,614	1,743
Non-controlling interest	(1,263)	(609)
Net income for the year	$ 24,351	$ 1,134
Earnings per share, Class A and Class B – Basic	$ 0.35	$ 0.02
Earnings per share, Class A and Class B – Diluted	$ 0.34	$ 0.02

Consolidated Statements of Retained Earnings

Years ended December 31 (In thousands of Canadian Dollars)	2003	2002
Balance at beginning of year	$ 377,387	$ 381,380
Net income for the year	24,351	1,134
	401,738	382,514
Dividends paid	5,701	5,127
Balance at end of year	$ 396,037	$ 377,387

See accompanying notes.

Years ended December 31 (In thousands of Canadian Dollars)	2003	2002
OPERATING ACTIVITIES		
Net income for the year	$ 24,351	$ 1,134
Items not requiring an outlay of cash:		
Depreciation and amortization	62,359	43,910
Future income taxes	(11,573)	(17,838)
Non-controlling interest in earnings of subsidiaries	1,263	609
Share of earnings of associated company	1,622	155
Change in non-cash working capital and other	72,732	(30,783)
Cash provided by (used in) operating activities	150,754	(2,813)
INVESTING ACTIVITIES		
Additions to capital assets	(16,657)	(31,594)
Proceeds on disposal of capital assets	7,542	9,263
Proceeds on disposal of investment in shares	9,086	—
Acquisitions, net of cash acquired (note 2)	—	(69,198)
Cash used in investing activities	(29)	(91,529)
FINANCING ACTIVITIES		
(Decrease) Increase in bank indebtedness	(231,298)	71,891
Repayment of long-term debt (note 7)	(78,658)	(1,949)
Increase in long-term debt	168,427	—
Repayment of note payable	(35,041)	—
Dividends paid to shareholders	(5,701)	(5,127)
Dividends paid to non-controlling shareholders of subsidiaries	(45)	(166)
Issue of shares (notes 8 and 9)	85,906	2
Cash (used in) provided by financing activities	(96,410)	64,651
Net increase (decrease) in cash during the year	54,315	(29,691)
Cash and cash equivalents at beginning of year	25,945	55,636
Cash and cash equivalents at end of year	$ 80,260	$ 25,945

See accompanying notes.

1. Significant Accounting Policies

A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of ShawCor Ltd. (the "Company"), its wholly-owned subsidiaries and up to September 30, 2002, its 50% proportionate interest in the underlying assets, liabilities and activities of the Bredero Shaw incorporated joint venture. On October 1, 2002, the Company purchased the remaining 50% of Bredero Shaw and accordingly, 100% of Bredero Shaw's assets, liabilities and results of operations are included after this date (see note 2). The Bredero Shaw accounts include certain partially-owned subsidiaries which give rise to non-controlling interest in the net assets and net results.

B) USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with Canadian Generally Accepted Accounting Principles ("GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C) REVENUE RECOGNITION

Revenue from the sale of products is recognized as products are shipped or accepted by the customer. Pipecoating revenue is recognized as services are performed. Revenue from inspection, repair and other services provided in respect of customer-owned property is recognized as services are performed under specific contracts and other arrangements.

D) DEFERRED PROJECT COSTS

Costs related to the preparation of production facilities for fixed term projects are deferred and amortized on a basis to match the costs with the revenue from production on the specific projects.

E) FOREIGN CURRENCY TRANSLATION

Foreign operations which are financially and operationally independent are classified as self-sustaining. Foreign operations which are dependent upon other operations within the Company are classified as integrated.

Assets and liabilities of self-sustaining foreign operations are translated at year-end exchange rates. Income and expense items are translated at average exchange rates for the year. The foreign exchange impact of these translations is included in the cumulative translation account on the consolidated balance sheets. The appropriate amounts of exchange gains and losses accumulated in the cumulative translation account are reflected in income when there is a reduction in the Company's investment in these subsidiaries as a result of capital transactions.

Monetary assets and liabilities of the Company and its integrated foreign operations denominated in foreign currencies are translated at year-end exchange rates. All other assets and liabilities, along with depreciation expense denominated in foreign currencies are translated at historical exchange rates. Income and expense items other than depreciation are translated at average exchange rates for the year. All other foreign exchange gains or losses are included in the determination of net income for the year.

F) CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash in bank and short-term investments with original maturity dates on acquisition of 90 days or less.

G) DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages interest rate and foreign exchange risk through the use of derivative financial instruments. Using fair value accounting, these financial instruments are generally marked to market and the unrealized gains and losses are recognized in income in the period. The notional amounts of derivatives are not recognized in the consolidated financial statements. Short-term movements on financial instruments acquired as a hedge of a specific foreign currency purchase obligation or revenue source are deferred and matched with the specific transaction.

H) INVENTORIES

Inventories are valued at the lower of cost and net realizable value for finished goods and work in progress and replacement cost for raw materials. The first-in, first-out basis is used to calculate lower of cost except in most pipeline businesses the average cost basis is employed.

I) CAPITAL ASSETS

Capital assets are recorded at cost and, other than project-related facilities and equipment, are depreciated over their useful lives commencing when the asset is available for use

on a straight-line basis at annual rates of 4% to 10% on buildings, 10% to 20% on machinery and equipment and 33% to 50% for computer equipment. Project-related facilities are depreciated over the initial estimated project life, generally no longer than seven years.

J) GOODWILL

Goodwill represents the excess of the purchase price of the Company's interest in the subsidiary entities over the fair value of the underlying net identifiable tangible and intangible assets arising on acquisitions. No amortization is recorded for years ended after December 31, 2001. The Company determines, at least once annually, whether the fair value of each reporting unit to which goodwill has been attributed is less than the carrying value of the reporting unit's net assets including goodwill, thus indicating impairment. Any impairment is then recorded as a separate charge against earnings. During 2003, the Company assessed the fair value of reporting units to which the underlying goodwill is attributable and determined that no charge for impairment of goodwill is required for the year ended December 31, 2003.

K) STOCK OPTION PLANS

The Company has four stock option plans, which are described in note 9. The Company's 1989 employee market growth stock option plan (the "1989 Plan") meets the definition of stock appreciation rights that call for settlement by the issuance of equity instruments. Effective January 1, 2002, the Company recognizes compensation costs for awards granted under the 1989 Plan over the vesting period and measures compensation cost based on the fair value of the award on the date of grant. Subsequent to January 1, 2002, no new awards will be granted under the 1989 Plan.

The Company does not recognize compensation costs for its other employee stock option plans. Consideration paid on the exercise of stock options is credited to share capital. Pro forma disclosure of net income and earnings per share is provided in note 10 as if compensation cost for awards granted under these plans had been recognized using the fair value method.

L) OPERATING LEASES

Payments for operating leases are charged to income in the year they are incurred.

M) INVESTMENTS

The Company accounts for investments in which it has significant influence using the equity basis. Other investments are recorded at cost less write-downs to reflect other than temporary impairment.

N) EARNINGS PER SHARE

Basic earnings per share are calculated using the weighted average number of shares outstanding during the year.

Diluted earnings per share are calculated using the treasury stock method for determining the dilutive effect of outstanding options. Under this method the exercise of options is assumed at the beginning of the year (or at the time of issuance, if later) and shares are assumed issued. The proceeds from the exercise are assumed to be used to purchase common shares at the average market price during the period and the incremental number of shares (the difference between the number of shares assumed issued and assumed purchased) is included in the denominator of the diluted earnings per share computation.

O) COMPARATIVE FIGURES

Comparative figures have been reclassified where necessary to correspond with the current year's presentation.

Effective October 1, 2002, the Company acquired the remaining 50% of the Bredero Shaw joint venture from the Halliburton Company therefore comparative income and cash flow figures represent only 50% of Bredero Shaw's results of operations for the first nine months of 2002.

2. Acquisitions

Effective October 1, 2002, the Company acquired the remaining 50% of the Bredero Shaw joint venture from the Halliburton Company. Bredero Shaw, with its worldwide operations, is a preeminent supplier in the pipecoating industry.

Details of this acquisition are as follows:

(in thousands)	
Net assets acquired at estimated assigned values:	
Capital assets	$ 186,754
Goodwill	129,004
Other assets and liabilities	(19,133)
Debt acquired	(75,600)
	$ 221,025
Consideration given:	
Cash, net of cash acquired	$ 69,198
Promissory note (US$25 million, 2.5% interest per annum, maturing September 2003)[1]	39,443
Capital stock (7,723,996 class A shares)	112,384
	$ 221,025

(1) The promissory note was redeemed for cash on May 8, 2003.

3. Inventories

(in thousands)	2003	2002
Raw materials and supplies	$ 47,632	$ 71,691
Work in progress	6,013	6,205
Finished goods	10,267	12,449
	$ 63,912	$ 90,345

4. Capital Assets

(in thousands)	2003	2002
Cost		
Land and land improvements	$ 56,686	$ 62,921
Buildings	105,524	114,891
Machinery and equipment	485,958	558,930
Capital projects in progress	3,474	2,721
	651,642	739,463
Accumulated depreciation		
Land improvements	22,468	19,850
Buildings	52,294	49,978
Machinery and equipment	271,127	274,855
	345,889	344,683
	$ 305,753	$ 394,780

5. Other Assets

(in thousands)	2003	2002
Long-term investment	$ 2,018	$ 7,100
Deferred project costs	11,618	2,152
Deferred financing costs	3,298	—
Future income taxes (note 15)	8,337	—
	$ 25,271	$ 9,252

Long-term investment comprises publicly traded securities with a quoted market value of $4.8 million at December 31, 2003. In 2002, a charge to earnings was recorded to recognize a significant decline in the estimated fair market value of the long-term investment. Deferred financing costs are amortized over the terms of the long-term debt.

6. Derivative Financial Instruments

Foreign exchange options and forward exchange contracts are used to hedge foreign exchange exposures related to commercial activities. They are not used by the Company for speculative purposes. At December 31, 2003, the Company had notional amounts of $10.8 million (2002 – $17.4 million) of forward contracts outstanding. The amounts are used to express the volume of the transactions and do not represent exposure to loss. The difference between the carrying values and fair values of each of these contracts was not significant and was charged to earnings in the current year except for $6.5 million of the above amount which is hedged against a specific U.S. Dollar sales project in Canada.

7. Bank Indebtedness and Long-Term Debt

On June 27, 2003, the Company entered into an agreement for the issue and sale, at par, on a private placement basis to institutional investors, US$75.0 million of 5.11% Senior Notes due June 30, 2011. Interest is payable quarterly and fixed repayment amounts of US$25.0 million are due on June 30, 2009, 2010 and 2011. The notes are unsecured and rank pari passu with the bank credit facility and all other present and future unsecured indebtedness and trade obligations of the Company.

On June 27, 2003, the Company also entered into an agreement with a group of six North American Banks for a 3-Year Unsecured Committed Bank Credit Facility to a maximum of US$190.0 million. Various interest options are available to the Company under this credit facility.

Both of these facilities were funded on July 3, 2003 and the proceeds used to repay existing short-term debt.

a) The Company had long-term debt consisting of the following:

(in thousands of Canadian Dollars)	2003	2002
5.11% Senior Notes due on June 30, 2009, 2010 and 2011 (US$75.0 million)	$ 97,095	$ —
Committed bank credit facility due June 27, 2006	—	—
Other loans payable bearing interest at rates between 7.5% and 11.6% per annum, re-paid July 3, 2003 (2002 – NOK 41.5 million)	—	9,267
Non-interest bearing obligation, due December 31, 2003 (2002 – Euro 2.3 million)	—	3,802
	97,095	13,069
Less current portion	—	6,330
	$ 97,095	$ 6,739

b) Long-term debt repayments during each of the next five years at current rates of exchange are as follows:

(in thousands of Canadian Dollars)	
2004	$ —
2005	—
2006	—
2007	—
2008	—
Thereafter	97,095
	$ 97,095

c) As at December 31, 2003, the Company had unused operating lines of credit of $214.2 million, net of $56.7 million for various types of standby letters of credit outstanding for performance and bid bonds.

d) The Company has undertaken to maintain certain covenants in respect of the previously described US$75.0 million of 5.11% Senior Notes and 3-Year Unsecured Committed Bank Credit Facility. The Company was in compliance with these covenants at December 31, 2003.

8. Capital Stock

As at December 31, the following shares were outstanding:

(in thousands except share information)	2003			2002		
	Class A	Class B	Total	Class A	Class B	Total
Number of shares:						
Balance, beginning of the year	54,851,303	13,814,595	68,665,898	46,869,003	13,930,005	60,799,008
Issued – stock options	10,299	—	10,299	142,894	—	142,894
Conversions Class B to A	44,600	(44,600)	—	115,410	(115,410)	—
Share issuance	6,300,000	—	6,300,000	7,723,996	—	7,723,996
Balance, end of the year	61,206,202	13,769,995	74,976,197	54,851,303	13,814,595	68,665,898
Stated value:						
Balance, beginning of the year	$ 119,441	$ 1,060	$ 120,501	$ 6,523	$ 1,069	$ 7,592
Issued – stock options	—	—	—	2	—	2
Conversions Class B to A	3	(3)	—	9	(9)	—
Share issuance	85,906	—	85,906	112,384	—	112,384
Compensation cost on exercised options	104	—	104	523	—	523
Balance, end of the year	$ 205,454	$ 1,057	$ 206,511	$ 119,441	$ 1,060	$ 120,501

Class A shares are entitled to one vote per share and receive a non-cumulative dividend premium of 10% of the dividends paid to holders of Class B shares. Class B shares are entitled to ten votes per share and are convertible at any time into Class A shares on a one-for-one basis.

On October 10, 2003, the Company completed a public offering of 6,300,000 Class A Subordinate Voting Shares at a price of $14.30 per share, for gross proceeds of $90,090,000 before underwriters' commissions and other costs of issue.

9. Stock Option Plans

The Company has four stock option plans, initiated in 1989, 1995 and two in 2001. During the year, a fifth option plan initiated in 1997 expired.

Under the Company's 1989 employee market growth stock option plan (the "1989 Plan"), options were granted to senior management and employees to acquire from the Company, the number of Class A shares equal in value to the market growth of the shares from the grant date with respect to which the option is exercised. Options are exercisable up to a maximum of 20% of the option units, on a cumulative basis, per year, commencing one year after the date of grant. The number of shares to be issued under any option shall not exceed 75% of the number of units with respect to which the option is exercised. Subsequent to January 1, 2002, no additional options will be granted under this plan.

Under the Company's 1995 director stock option plan (the "1995 Plan"), options to purchase Class A shares were granted at a price being the fair market value at the date of the grant. The maximum number of Class A Subordinate Voting Shares which could be purchased by a director pursuant to any single grant of option was equal to the lesser of 9,000 Class A Subordinate Voting Shares and a number equal to twice the number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares owned by the eligible director as at the date of the grant. No additional options will be granted under the 1995 Plan which has been replaced by the 2001 Director Plan.

Under the Company's 2001 employee stock option plan (the "2001 Employee Plan"), which replaces the 1989 Employee Plan and is a traditional stock option plan, the options will have a term of ten years from the date of the grant. Exercises will be permitted on the basis of 20% of the optioned shares per year over five years, on a cumulative basis, commencing one year following the date of the grant. The grant price will equal the closing sale price of the Class A shares on the day prior to the grant.

Under the Company's 2001 director plan (the "2001 Director Plan"), options are granted on an annual basis and the maximum number of Class A Subordinate Voting Shares issued in any single grant shall be equal to the number of Class A Subordinate Voting Shares and Class B Multiple Voting Shares of the Company owned at the date of the option grant by the individual director, subject to a maximum of 8,000 Class A Subordinate Voting Shares for each of the Chairman and Vice Chair and 4,000 Class A Subordinate Voting Shares for each of the other eligible directors. The term of the options is five years and vesting is immediate upon grant. The grant price will equal the closing sale price of the Class A Subordinate Voting Shares on the day prior to the grant.

A summary of the status of the Company's stock option plans and changes during the year are presented below:

	2003				2002	
	Market Growth Plan[1]	Other Plans	Total Shares	Weighted Average Exercise Price	Total Shares	Weighted Average Exercise Price
Balance outstanding, beginning of year	1,226,415	698,800	1,925,215	$ 14.36	1,856,100	$ 13.92
Granted	—	734,950	734,950	13.25	367,900	16.68
Exercised	(10,299)	—	(10,299)	11.24	(142,894)	9.25
Forfeited/expired	(89,511)	(356,600)	(446,111)	14.02	(155,891)	9.91
Balance outstanding, end of year	1,126,605	1,077,150	2,203,755	$ 14.73	1,925,215	$ 14.36

(1) This maximum number is achieved only when the market value of the shares at the time of exercise is equal to no less than four times the value at the date of the grant.

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Outstanding at December 31, 2003**	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	**Exercisable at December 31, 2003**	Weighted Average Exercise Price
$10.00 – $15.00	**1,274,345**	5.76	$ 12.80	**482,374**	$ 12.24
$15.01 – $20.00	**929,410**	4.62	$ 17.38	**345,924**	$ 17.42
	2,203,755			**828,298**	

10. Stock-Based Compensation

The "1989 Plan" meets the definition of stock appreciation rights that call for settlement by issuance of equity instruments and the Company recognizes compensation cost for awards granted under this plan over the vesting period based on the fair value of the award on the date of the grant. The compensation cost relating to the 1989 Plan recognized in the accounts for the year ended December 31, 2003 is $464 thousand (2002 – $720 thousand). Compensation cost, net of issuance of stock upon exercise of options, increased contributed surplus by $360 thousand (2002 – $2.7 million).

The Company's other stock option plans are not "direct awards" plans, and the Company has elected to disclose the effect of attributing a compensation cost to the awards granted after January 1, 2002 on a pro forma basis only. Had the Company elected to recognize the cost of its stock-based compensation based on the estimated fair value of the stock options granted to date, the Company's results would have been as follows:

(in thousands except per share amounts)	**Year Ended Dec. 31, 2003**	Year Ended Dec. 31, 2002
Pro forma results		
Net income as reported	**$ 24,351**	$ 1,134
Less stock-based compensation awards cost	**(1,472)**	(729)
Pro forma net income	**$ 22,879**	$ 405
Pro forma per share data (Class A and B)		
Basic	**$ 0.33**	$ 0.01
Diluted	**$ 0.32**	$ 0.01

The fair value of each stock option was estimated on the date of grant using the Black-Scholes pricing model with the following assumptions: weighted average fair value of all options granted $4.85, expected life of options from 3.25 years to 8.25 years, expected stock price volatility ranges from 16% to 38%, expected dividend yield 0.4%, and risk free interest rate ranging from 3.0% to 5.8% over the life of the options.

11. Earnings Per Share

Basic earnings per share is calculated by dividing net income available to the shareholders by the weighted average number of common shares outstanding during the year which was 70,102,279, (2002 – 62,787,908 shares). Diluted earnings per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method. The weighted average number of common shares outstanding during the period plus the dilutive effect of outstanding stock options equaled 71,280,395 (2002 – 64,042,410).

12. Cumulative Translation Account

(in thousands)	**2003**	2002
Balance at beginning of year	**$ (3,349)**	$ (16,913)
Translation of self-sustaining foreign operations	**(58,556)**	13,564
Balance at end of year	**$ (61,905)**	$ (3,349)

During 2003, the Canadian Dollar gained 18.0% (2002 – gained 1.1%) against the U.S. Dollar, gained 1.9% (2002 – weakened 17.4%) against the Euro and gained 9.4% (2002 – weakened 10.0%) against the U.K. pound.

13. Employee Future Benefits

The Company provides employee future benefits to its employees under a number of defined benefit and defined contribution arrangements.

The Company's accrued benefit obligations under the defined benefit plans for employees' service up to December 31, 2003 are estimated to be $47.2 million (2002 – $43.0 million). These employee future benefits have assets with a market value of $41.1 million (2002 – $36.4 million) available to meet these obligations. The cost of the defined benefit plans is determined using the projected benefit method pro rated on

service and management's best estimate of expected plan investment performance, salary escalation, retirement age and inflation. The cost is then charged to expense as services are rendered. Obligations are accrued net of plan assets, which are valued at market. Past service costs arising from plan amendments are amortized on a straight-line basis over the expected average remaining service lives of the employees who are members of the plan. Net actuarial gains and losses that exceed 10% of the greater of the benefit obligation and the value of plan assets are amortized over the expected average remaining service lives of the employees who are members of the plan. The Company uses actuarial reports prepared by independent actuaries for funding and accounting purposes.

The cost of contributions made by the Company under the defined contribution plans is expensed in the period during which the contribution is made.

Information about the Company's employee future benefits in aggregate is as follows:

(in thousands)	2003	2002
ACCRUED BENEFIT OBLIGATION		
Accrued benefit obligation, beginning of year	$ 42,973	$ 23,559
Acquisition of remaining 50% Bredero Shaw (note 2)	—	12,140
Valuation effect	624	11
Current service cost	2,801	2,274
Past service cost	218	—
Interest cost	2,805	2,531
Actuarial (gains) losses	(130)	3,434
Effect of foreign currency exchange rate changes	(1 184)	—
Benefits paid	(913)	(976)
Accrued benefit obligation, end of year	$ 47,194	$ 42,973

(in thousands)	2003	2002
PLAN ASSETS		
Fair value of plan assets, beginning of year	$ 36,387	$ 25,434
Acquisition of remaining 50% Bredero Shaw (note 2)	—	10,689
Valuation effect	(253)	—
Actual return on plan assets	3,921	(1,251)
Employer contributions	2,822	2,491
Effect of foreign currency exchange rate changes	(817)	—
Benefits paid	(913)	(976)
Fair value of plan assets, end of year	$ 41,147	$ 36,387
FUNDED STATUS – PLAN (DEFICIT)	$ (6,047)	$ (6,586)
Unamortized net actuarial losses	5,023	6,338
Unamortized past service cost	1,127	1,092
Unamortized net transitional obligation	977	1,113
Net accrued benefit asset	$ 1,080	$ 1,957
NET BENEFIT EXPENSE FOR THE YEAR		
Current service cost	$ 2,732	$ 2,208
Interest cost	2,805	2,531
Expected return on plan assets	(2,492)	(2,510)
Amortization of net transitional amount	136	136
Amortization of past service cost	183	140
Amortization of actuarial (gain) loss	265	(8)
Net benefit expense	$ 3,629	$ 2,497

(in thousands)	2003	2002
Defined contribution plans expense	$ 6,034	$ 3,230

Included in the above accrued benefit obligation and fair value of plan assets at year end are the following amounts in respect of plans that are not fully funded:

(in thousands)	2003	2002
Accrued benefit obligation	$ 40,626	$ 36,189
Fair value of plan assets	32,521	27,494
Funded status – plan (deficit)	$ (8,105)	$ (8,695)

	2003	2002
Significant assumptions used		
Expected long-term rate of return on plan assets (%)	7.0 – 7.5	7.36 – 7.5
Discount rate (%)	5.60 – 6.25	5.40 – 6.25
Rate of compensation increase (%)	3.3 – 4.0	3.3 – 4.0

14. Other Income (Expense)

(in thousands)	2003	2002
Interest income on short-term deposits	$ 1,086	$ 1,118
Interest on bank indebtedness	(4,443)	(5,798)
Interest on long-term debt	(3,976)	(509)
Share of earnings of associated company	4,394	3,798
	$ (2,939)	$ (1,391)

15. Income Taxes

i) The income tax expense is comprised of:

(in thousands)	2003	2002
Current	$ 31,239	$ 20,411
Future	(11,573)	(17,838)
	$ 19,666	$ 2,573

ii) The Company's effective income tax rate is composed of the following:

	2003	2002
Combined basic Canadian federal and provincial income tax rate	41.6 %	41.6 %
Canadian manufacturing and processing profits deductions	(8.5)	(8.5)
Expected rate	33.1	33.1
Tax rate differential on earnings of foreign subsidiaries	0.7	0.7
Unrecognized tax losses of foreign subsidiaries	8.4	17.0
Other	1.2	8.8
	43.4 %	59.6 %

iii) Components of future income taxes are summarized as follows:

(in thousands)	2003	2002
FUTURE TAX ASSET		
Net operating losses carry forward – current	$ 348	$ 4,280
Net operating losses carry forward – non-current	8,337	–
Net future tax asset	$ 8,685	$ 4,280
FUTURE TAX LIABILITY		
Depreciable capital assets	$ 25,495	$ 35,438
Provisions and future expenditures	3,323	548
Total future tax liability	$ 28,818	$ 35,986

The Company income tax losses carried forward of $30.6 million (2002 – $33.6 million) for which tax benefit of these loss carryforwards has been recorded as a future tax asset. These tax losses may be utilized to offset taxable income from certain jurisdictions in future years. Tax losses of $26.1 million carry forward beyond 2010. The remainder will expire, to the extent that they are not utilized, as follows: 2004 – $0.4 million; 2005 – $2.9 million; 2006 – $0.5 million; and 2007 – $0.7 million. Income taxes of $12.8 million (2002 – $13.3 million) were paid during the year. The Company has net losses of $10.8 million (2002 – $2.2 million) in various jurisdictions for which no future tax asset has been recognized. The majority of these losses expire beyond 2010.

16. Other Commitments

A) OPERATING LEASES

At December 31, 2003, the aggregate minimum annual obligations under non-cancelable operating leases were as follows:

(in thousands)	
2004	$ 11,650
2005	9,305
2006	8,400
2007	7,339
2008	7,021
Subsequent to 2008	7,881
	$ 51,596

B) GENERAL

In the ordinary course of business activities, the Company may be contingently liable for litigation and claims with customers, suppliers and other third parties. Management believes that adequate provisions have been recorded in the accounts where required. Although it is not possible to estimate the extent of potential costs and losses, if any, management believes, but can provide no assurance, that the ultimate resolution of such contingencies would not have a material adverse effect on the consolidated financial position of the Company.

17. Foreign Exchange Gains and Losses

Included in income from operations are foreign exchange gains, primarily related to the translation of foreign currency loans during 2003 and working capital balances in 2002, totaling $13.5 million (2002 – $46 thousand).

The Company designated, effective July 3, 2003, US$25.0 million of its Bank Credit Facility and the 5.11% Senior Notes as a hedge of a portion of its net investment in Bredero Shaw's U.S. Dollar based operations. Gains and losses from the translation of this debt are not included in the income statement, but are shown in the cumulative translation account.

18. Segmented Information

The Company provides products and services to three general segments of the global energy industry: pipeline, exploration and production, and petrochemical and industrial. The pipeline segment is comprised of Bredero Shaw which provides pipecoating, lining and insulation products, Canusa–CPS which manufactures heat shrinkable sleeves, adhesives and liquid coatings for pipeline joint protection applications and Shaw Pipeline Services which provides ultrasonic and radiographic weld inspection services for land and marine pipeline construction. The exploration and production segment is comprised of OMSCO which manufactures drill string components and Guardian which provides oilfield tubular management services and inspection, testing and refurbishment of oilfield tubulars as well as selling OMSCO products in Canada and Mexico. The petrochemical and industrial segment is comprised of ShawFlex which manufactures wire and cable for process instrumentation and control applications and DSG–Canusa which manufactures heat shrinkable tubing for automotive, electrical, electronic and utility applications.

Financial information by operating segment is as follows (in thousands of dollars):

	Pipeline		Exploration and Production		Petrochemical and Industrial		Financial and Corporate		Eliminations		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Revenue – customer	**636,439**	518,921	**82,918**	66,188	**105,040**	113,873	**—**	—	**—**	—	**824,397**	698,982
– intersegment	**397**	766	**—**	—	**1,469**	656	**—**	—	**(1,866)**	(1,422)	**—**	—
– total	**636,836**	519,687	**82,918**	66,188	**106,509**	114,529	**—**	—	**(1,866)**	(1,422)	**824,397**	698,982
Operating expenses	**543,155**	452,510	**70,587**	71,602	**95,027**	97,107	**(332)**	7,610	**(1,866)**	(1,422)	**706,571**	627,407
Depreciation of capital assets	**51,761**	32,921	**4,593**	5,210	**4,557**	4,032	**1,448**	1,747	**—**	—	**62,359**	43,910
Research and development	**4,478**	2,614	**195**	160	**1,244**	1,409	**1,331**	775	**—**	—	**7,248**	4,958
	599,394	488,045	**75,375**	76,972	**100,828**	102,548	**2,447**	10,132	**(1,866)**	(1,422)	**776,178**	676,275
Income (loss) from operations	**37,442**	31,642	**7,543**	(10,784)	**5,681**	11,981	**(2,447)**	(10,132)	**—**	—	**48,219**	22,707
Interest, net	**—**	—	**—**	—	**—**	—	**7,333**	5,189	**—**	—	**7,333**	5,189
Income tax expense (recovery)	**—**	—	**—**	—	**—**	—	**19,666**	2,573	**—**	—	**19,666**	2,573
Goodwill additions	**—**	129,004	**—**	—	**—**	—	**—**	—	**—**	—	**—**	129,004
Total assets	**857,203**	787,408	**64,272**	91,698	**73,606**	85,549	**872,799**	564,564	**(1,042,263)**	(543,319)	**825,617**	985,900
Capital expenditures, net of disposals	**13,499**	18,916	**(5,710)**	1,506	**910**	1,565	**416**	344	**—**	—	**9,115**	22,331

Revenues and capital assets by geographic segment are as follows. 'Other' in the Far East, Pacific and Other geographic segment includes operations in Mexico, Africa and the Middle East. The geographical segment is determined by the location of the Company's country of operation (in thousands):

	Canada		United States		Europe		Far East, Pacific and Other		Eliminations		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Revenue – customer	**133,484**	125,096	**242,254**	199,968	**199,366**	187,124	**249,293**	186,794	**—**	—	**824,397**	698,982
– intersegment	**52,712**	65,053	**11,898**	13,851	**2,925**	8,738	**198**	108	**(67,733)**	(87,750)	**—**	—
– total	**186,196**	190,149	**254,152**	213,819	**202,291**	195,862	**249,491**	186,902	**(67,733)**	(87,750)	**824,397**	698,982
Capital assets, net	**96,108**	99,422	**130,450**	185,241	**50,117**	77,149	**29,078**	32,968	**—**	—	**305,753**	394,780

(in thousands except per share information)	2003	2002	2001	2000	1999	1998
OPERATING RESULTS						
Revenue (note 1)	**$ 824,397**	$ 698,982	$ 688,682	$ 467,208	$ 528,226	$ 728,264
EBITDA (notes 1 and 2)	**113,709**	69,806	87,728	59,880	89,098	135,738
Net income for the year	**24,351**	1,134	33,376	23,860	30,761	69,624
CASH FLOW						
Cash from operating activities	**$ 150,754**	$ (2,813)	$ 30,346	$ 31,995	$ 85,639	$ 102,412
Additions to capital assets	**16,657**	31,594	86,458	24,394	29,450	57,952
FINANCIAL POSITION						
Working capital	**$ 152,420**	$ (79,611)	$ 80,363	$ 119,135	$ 127,544	$ 128,502
Long-term debt	**97,095**	13,069	8,881	3,242	20,151	48,027
Shareholders' equity	**543,670**	497,206	374,529	339,554	322,632	319,534
Total assets	**825,617**	985,900	620,625	468,523	479,441	561,181
PER SHARE INFORMATION (CLASS A AND CLASS B)						
Net income						
Basic	**$ 0.35**	$ 0.02	$ 0.55	$ 0.39	$ 0.51	$ 1.15
Diluted	**$ 0.34**	$ 0.02	$ 0.54	$ 0.39	$ 0.50	$ 1.13
Dividends						
Class A	**$ 0.0808**	$ 0.0808	$ 0.0808	$ 0.0808	$ 0.0808	$ 0.0734
Class B	**$ 0.0734**	$ 0.0734	$ 0.0734	$ 0.0734	$ 0.0734	$ 0.0663
Shareholders' equity	**$ 7.25**	$ 7.24	$ 6.16	$ 5.60	$ 5.34	$ 5.26

Note 1: Restated to exclude discontinued operations in 1998 and 1999.

Note 2: EBITDA is a non-GAAP measure and can be calculated by adding back to income from continuing operations, taxes, net interest, depreciation and amortization, and provision for asset impairment. EBITDA is used by many analysts in the oil and gas industry as one of several important analytical tools. There is no standard definition of EBITDA under GAAP.

Quarterly Information (Unaudited)

(in thousands except per share information)		First	Second	Third	Fourth	Total
Revenue	**– 2003**	**$ 235,664**	**$ 215,456**	**$ 178,323**	**$ 194,954**	**$ 824,397**
	– 2002	$ 151,731	$ 159,763	$ 154,243	$ 233,245	$ 698,982
Net income	**– 2003**	**$ 10,622**	**$ 8,596**	**$ 97**	**$ 5,036**	**$ 24,351**
	– 2002	$ 5,789	$ 5,459	$ 102	$ (10,216)	$ 1,134
Net income per share (Class A and Class B)						
Basic	**– 2003**	**$ 0.15**	**$ 0.13**	**$ 0.00**	**$ 0.07**	**$ 0.35**
	– 2002	$ 0.10	$ 0.09	$ 0.00	$ (0.17)	$ 0.02
Diluted	**– 2003**	**$ 0.15**	**$ 0.12**	**$ 0.00**	**$ 0.07**	**$ 0.34**
	– 2002	$ 0.09	$ 0.09	$ 0.00	$ (0.16)	$ 0.02

Directors, Corporate Officers and Operations Management

Directors

A.F. GRIFFITHS [2] [3]
Toronto
Independent Consultant
and Corporate Director

G.F. HYLAND
Toronto
President and
Chief Executive Officer
ShawCor Ltd.

M.K. MULLEN
Aldersyde, Alberta
Chairman, President and
Chief Executive Officer
Mullen Transportation Inc.

J.J. MURPHY
Dallas
Private Investor

R.J. RITCHIE [1]
Calgary
President and
Chief Executive Officer
Canadian Pacific Railway
Company

P.G. ROBINSON [1]
Woodbridge
President and General
Manager
Litens Automotive Group

L.E. SHAW
Barbados
Chairman of the Board
ShawCor Ltd.

V.L. SHAW [3]
Toronto
Vice Chair of the Board
ShawCor Ltd.

W.J.V. SHERIDAN [2]
Toronto
Partner
Lang Michener

Z.D. SIMO [2] [3]
Oakville
Corporate Director

D.C. VAUGHN [1]
Houston
Consultant

[1] Audit Committee
[2] Compensation Committee
[3] Nominating & Governance Committee

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Chairman of the Board

V.L. SHAW
Vice Chair of the Board

G.F. HYLAND
President and
Chief Executive Officer

W.P. BUCKLEY
Executive Vice President
and Chief Operating
Officer

M.D. REIZER
President
Bredero Shaw

B.J. CONROY
Senior Vice President

A.R. THOMAS
Vice President, Finance
and Chief Financial Officer

P.H. LANGDON
Vice President,
Human Resources
and Assistant Secretary

R.E. STEELE
Vice President, Technology

W.J.V. SHERIDAN
Secretary

Operational Management

R.A. DICK
Senior Vice President
Middle East/Far East
Bredero Shaw

R.J. DUNN
Vice President and
General Manager
Canusa–CPS

G.L. GRAHAM
Vice President,
Corporate Development
ShawCor Ltd.

L.W.J. HUTCHISON
Vice President and
General Manager
OMSCO
Shaw Pipeline Services

J.T. KING
Senior Vice President
Europe/Africa
Bredero Shaw

E.W. REYNOLDS
Vice President and
General Manager
DSG–Canusa
ShawFlex

J.D. TIKKANEN
Senior Vice President
Americas
Bredero Shaw

K.C. WILLSON
Vice President and
General Manager
Guardian

Primary Operating Locations

Pipeline

Bredero Shaw
ShawCor Pipe Protection
Bredero Shaw
2350 N. Sam Houston
Pkwy. E., Suite 500
Houston, Texas
77032-3130
Phone: 281-886-2350
Fax: 281-886-2351

Bredero Shaw
Imperial Dock
Leith, Edinburgh EH6 7DT
Scotland
Phone: 44-131-554-6232
Fax: 44-131-553-9604

Shaw Pipe Protection
Shaw Court
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S.W.
Calgary, Alberta T2P 4L4
Phone: 403-263-2255
Fax: 403-264-3649

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#12-08-09 Orchard Tower
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Fax: 416-743-5927

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Exploration and Production

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AUDITORS
Ernst & Young LLP

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company of Canada

STOCK LISTING
The Toronto Stock Exchange

Class "A"
Subordinate Voting Shares
Trading symbol: SCL.A

Class "B"
Multiple Voting Shares
Trading symbol: SCL.B

ANNUAL MEETING
Friday, April 30, 2004
11:00 a.m.
The Fairmont Royal York Hotel
Toronto, Ontario, Canada

www.shawcor.com